RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Dec. 28, 1988 LETTER 1007

Dec. 16 DJIA 2150.74; PTI 2816; A-D Ratio -12.53
Dec. 22 DJIA 2160.36; PTI 2807; A-D Ratio -12.61
Current Dow Yield: 3.73%; Dow P/E: 11.9
Dow Book Value: 1009; Dow 200-day MA: 2078
Dow Pow: 678
Percentage of undervalued blue-chips: 20%

THE BIG LIE: What happens to a nation that lies through its teeth about its finances? I don't know, but we may be on the road to finding out. The big lie, the $100 billion lie, is this: The US didn't run a deficit of $155 billion in 1988, it ran a deficit of $255 billion -- a quarter trillion dollar deficit in one year! (Congressional Budget Office data). Here's what happened. The hidden $100 billion (which was used to "reduce" the deficit) came by tapping the following trust funds:

Social Security	$39 billion
Military retirement	$14 billion
Medicare	$16 billion
Civilian retirement	$20 billion
Unemployment	$8 billion
Highway and Airport	$2 billion

For 1989 the government will borrow $116 billion to again cover up the deficit which won't be $148 billion as predicted -- it will be a real $264 billion. "Whom the Gods would destroy, they first make mad."

THE PICTURE: (See chart below) From its November 16 low of 2038.58, the Dow rallied to a December 19 high of 2172.68, a rise of 134 points. However (as this is written) the Dow has still failed to confirm the (December) new high in the Transportation Average. For a confirmation the Dow would have to close above its high for the year of 2183.50 (recorded on October 21). But as long as this important non-confirmation exists, the situation can be termed dangerous. It will be the more so if the Dow cannot confirm between now and the end of the year (a period when the market is subject to the positive forces of the "normal" year-end rally).

With it all, I have to report that this is one of the strangest advances I have seen in all my 40 years of watching markets. It's totally a selective blue-chip advance. As this is written, despite the strength in the blue-chip averages, the advance-decline ratio has declined to within 1 point of its 1988 low and (unbelievably) to within 1.2 points of its December 4, 1987 extreme bear market low!. To put it mildly, the majority of NYSE stocks have been extremely reluctant to follow the lead of the blue-chips (and the stocks on the AMEX and the NASDAQ have done even worse).

The blue-chip rally has taken the Dow to the point where it yields a low 3.68%, while the yield on Treasury bills is well over 8% and Fed Funds are pushing 9%. Furthermore, the number of undervalued blue-chip stocks has sunk to 20%, which puts this indicator in the area of major tops. Therefore, on a value basis, the blue-chips are now skating on very thin ice.

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A return of 10%, year in and year out, is better than most professionals do and certainly better than most amateur investors do. So suppose I told you, "OK, I'll guarantee you a steady return of 10% in the stock market, but there's one caveat. Your stocks are not going to do anything. They're going to stand still for weeks, months, maybe years on end." Would you accept such an offer? Probably not, because in the back of your mind you want action -- the chance to make big money and fast. And you're afraid you'd be bored to death by a stagnant, do-nothing portfolio of stocks.

I've said this before, but I want to repeat it, because I don't think most people understand it. The only logical reason for speculation and trading, the only reason for buying equities that fluctuate rather than buying T-bills is -- TO BEAT TIME.

Let me put it another way. If you had unlimited time you could buy T-bills, compound the return on those bills and eventually it's absolutely certain that you'd end up as rich as Croesis (or Henry Kravis). But we don't have the time -- we don't have the 100 years or more needed to build up a fortune via compounding (actually, of course, most of us do have a lot of time, but we aren't aware of the power of compounding -- nor do we have the patience and discipline to compound).

The point I want to make is this: Don't push the stock market. Don't pressure the market and don't pressure yourself. With T-bills yielding well over 8%, with T-bonds yielding over 9%, with high-grade non-taxable muni bonds yielding almost 7.5%, why rant at Wall Street because it's not providing you with a roaring bull market? Why curse the NYSE because stocks aren't surging higher? Why not do what the sophisticated, patient investors do? Compound your money via T-bills, T-notes, muni cash funds, you name it, allowing the bear market to tell its story in its own good time.

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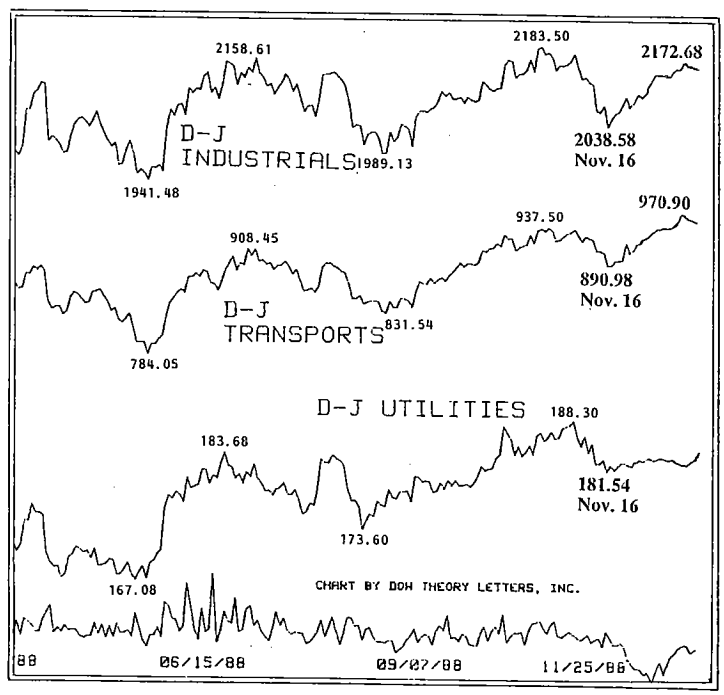
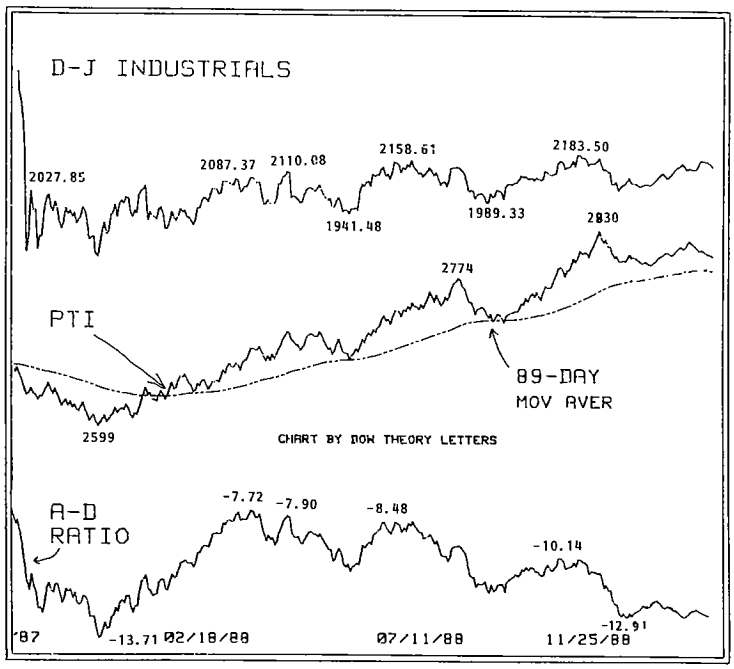
I read a lot of advisory services each week. And reading the various advisory services all I see is lists of "stocks to buy," lists of "takeover candidates," lists of reasons why the stock market is cheap, and this above all -- statements to the effect that "bearishness is now more pronounced than at any time" since 1982 or 1984. Everyone is certain that everyone else is far too bearish -- therefore it's clear that the market is a screaming buy.





This bear market may be a lot of things, but with T-bill yields at 2.2 times the yield of the Dow, the market is not a screaming buy. Any historic study of the T-bill/Dow yield ratio will back me on that statement (see later study in this Letter).

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Wall Street is a paradox. It's a serious business of investing and values -- and it's a silly business of trendiness and fads. As for the trendiness, do you remember a few years ago when everyone was waiting breathlessly for the latest M-1 figures? Whatever happened to M-1? That was a fad that's almost forgotten. I remember when everyone waited for the latest reading on the Confidence Index, then the latest reading on the short interest ratio, then the latest reading on the January barometer. More recently it's been the latest reading on the trade balance (although that too is simmering down).

What's the latest fad? It's the "big number of bears today and the low readings on the percentage of bulls." My own feeling is that the "everyone else is bearish" syndrome is so widely publicized that it's not worth following. Therefore, when your broker tells you that "It's great, everybody in the country is bearish on stocks, so the market's got to be a buy," thank him for the information. Then tell him that it's a bear market, and you're going to "wait a little while" before making your next fortune in equities.

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In my opinion, the area where most advisors are most ignorant is the area of risk/reward. Here's an example of how I measure risk and reward. Back in 1982 I bought heavily into Exxon at 28. I reasoned: "The stock is yielding 10% with a well-covered $2.80 dividend. In three years that's a return of over 30% compounded. If Exxon declines from here it's current yield will be even higher, in which case I'll buy more stock. If Exxon does nothing I'll collect the fat dividend and be satisfied." All in all it was an excellent risk/reward situation. The risk was slight, and the reward was great. The potential reward was great because at a price of 28 and a yield of 10% Exxon was a great value. And the risk was slight, because the dividend was well-covered and the yield was high.

Today, as I see it, the risk/reward in holding stocks is a poor one. Let me explain. The Dow Theory has already signaled a primary bear market. The US economic expansion (at 73 months) has been going on longer than any other peacetime expansion in history. Inflationary forces are building up. Interest rates are high and may go higher. The stock market is not offering attractive yields, certainly not attractive yields compared with bonds. A new president will take office in January, and he will face many difficulties. We'll have a Republican president dealing with a Democratic Congress, hardly the best background for getting anything done. The US is being confronted by tough foreign competition from Asia and Europe. The problem of the trade imbalance and the budget deficit are nowhere near being solved. The economy is being leveraged ever higher and debt has reached unheard-of proportions.

Under these conditions and considering that a bear market is in force, it's clear to me that the best risk/reward position is in collecting high rates of interest in safe money market instruments. True, this takes most of the excitement out of investing, but at some point each individual must decide whether he is in this to make money or to satisfy his craving for excitement.

Long ago I decided that I, personally, would invest to make money. So here's a thought: If you are making money (and I don't care how conservatively you make it), as your money builds up and compounds, as the totals keep rising -- that process alone can become pretty exciting.

Right now Wall Street is slow. In fact Wall Street itself is in a semi-depression. As a result, advisors, brokers, consultants, columnists, are doing everything they can to create business. And honestly, who can blame them? Consequently, the air is full of all kinds of analyses and technical studies. Even the staid *Wall Street Journal* (they've always ignored the technicals) came out on December 13 with articles on "percentage of advisors bullish" and a piece on the advance-decline rato. Mark Hulbert in *Forbes* explains which advisor did this right or did that wrong. Brokers on FNN and KWHY and CNN tell us what stocks to watch or what LBO to watch or what Warren Buffett or Donald Trump may do next.

But what of the public, what of the typical American stockholder? The poor battered public is still recovering from the crash. After all, didn't they tell us in 1987 that the Dow was going to 3600? Didn't they say that it was an exciting new world? Wasn't buying stocks tantamount to taking a rocket trip to the moon? Then came October 1987. The public was shaken by the crash in a way that it hasn't been shaken since the Great Depression. And in my opinion it's going to take a lot longer than most Wall Streeters think to bring the public back to the market.

What will bring the public back? The public will return when they see a real, honest to God, new bull market. What will set off a new primary bull market? Only one thing -- great values in stocks, values so great that informed money and public money will come in with billions of dollars and buy across the board. When will that happen? It will happen when this bear market ends, and I'll repeat again, when it offer us GREAT VALUES.

So what's my job all about? Right now it's about getting my subscribers though the bear market whole and solvent and in shape to buy when this bear market ends.

And I can tell you one thing. It's not going to be an easy job. There are attractions, there are distractions, there are those who will tell you that the bear market is over, there are those who want your money at any cost, and there are those who need commissions in order to survive.

NEAR- TERM: At the November low the market was semi-oversold, down enough to support a weak year-end rally, but not down enough (sold-out enough) to sustain a powerful bear market rally. That may explain the poor breadth we've been seeing.

If the November-December rally can continue, it appears as though the market will enter January in an overbought condition. This could set the stage for an extensive bear market decline, maybe a severe decline during the first quarter of '89. If so, we might see a major oversold situation sometime during the first quarter or first half of 1989.

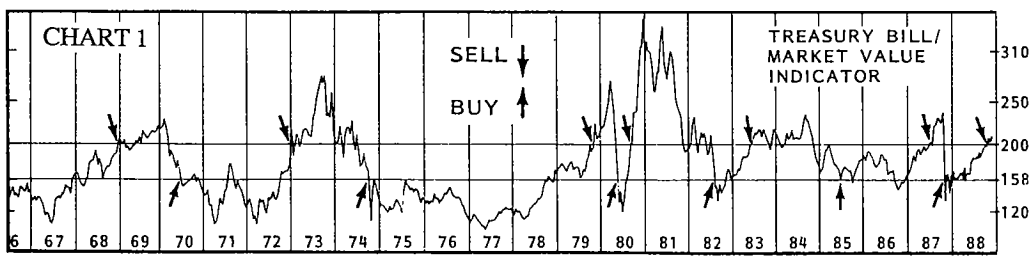
Note: Bear markets often record their highs in the early part of each new year or at least during the first quarter. Thus the majority of issues (as measured by the A-D ratio) hit their highs in March of 1987 and again in March of 1988. It could easily happen again in 1989 .

INVESTMENT POSITION: The bear owns the box. Sitting through this first phase of the bear market is particularly difficult for the average investor. It's difficult because he cannot see the reasons for the market's reluctance to move out on the upside. He cannot understand why the majority of stocks are languishing in the face of glowing business statistics. He cannot figure out why the Dow is still more than 500 points under its bull market high.

My answer to all this is, "Sit tight. In due time the reasons behind the bear market will emerge." Furthermore, in due time the bear market will enter its second phase, the phase where stocks go down as they reflect deteriorating business conditions.

In the meantime, we'll bide our time in high-grade money instruments. And that's never been easier. Currently, the yield on near-term government paper is extremely attractive: 91-day T-bills at a 8.45% yield, one-year T-notes at a 9% yield. It's hard to beat those safe (free from state taxes) yields. It's sure hard to beat them with yields of 3.67% on both the S&P 500 and the Dow.

CHARTS: Stocks and Interest Rates: *Growth Fund Guide* (Box 6600, Rapid City, SD 57709) runs a most interesting and valuable chart showing the ratio of T-bill yields to the yield on the S&P 500. When this ratio is above 2 (i.e., T-bills yielding twice or more as much as the S&P), the ratio is historically in a sell mode for stocks. When the ratio is below 1.58 the ratio is in a buy mode for stocks.



Growth Fund Guide's chart (see chart 1) has arrows which indicate buy and sell signals for stocks. As you can see, the most recent signal was a sell for stocks (the signal was given in October, but the ratio has now climbed to 2.2).

A second fascinating chart (see chart 2) has just been published by the very bright women at *Aden Analysis,* 2400 Jefferson H'way, Jefferson, LA 70121. Here we see a long-term chart of the Dow superimposed on 91-day T-bill yields. The chart depicts three reversals to the upside (up-arrows) in T-bill rates -- the first in 1972, the second in 1977, and the third a few months ago here in 1988.

The two down-arrows show what happened to the Dow once T-bill yields reversed to the upside on a trend basis. I've placed a question mark on the current situation, and at this point all we can do is wait to see whether history repeats.

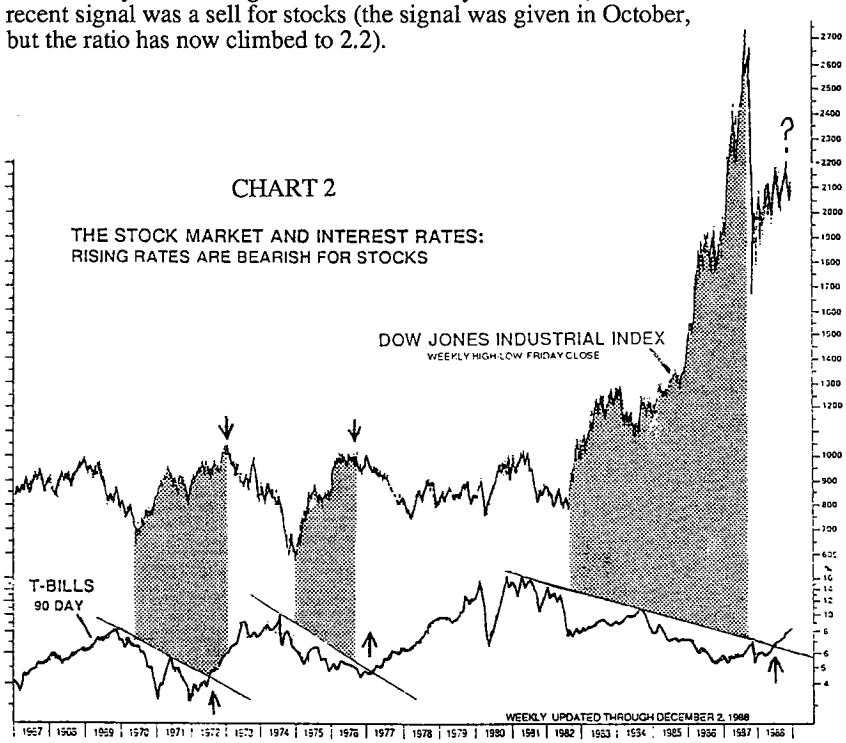
One thing is clear -- you can see the Fed's dilemma and understand why the Fed is so reluctant to raise the discount rate. But the money markets are running the show now, and even if the Fed does screw up its courage and raise the discount rate, such action would simply indicate that the Fed is following the market and adjusting to reality.

MUSINGS: This is a strange business. Every two weeks for the past 30 years I've been sending my thoughts on the market and other subjects to thousands of people whom I do not know personally. Yet I feel a sort of unconscious interplay between myself and my subscribers, I honestly do. I often wish that I could meet each of you individually, but sadly that is impossible.

I've often thought of giving a kind of "seminar-get together" for me and my subscribers, but I think such a monster-party would be too much for me to handle. At seminars at which I speak I meet many of my subscribers, but at best this is only a small percentage, and even there I don't have time to sit down and really talk to you.

I get to work every morning at 7AM, and the first thing I do is sit down and look over the subscriptions that have come in. I look at the names, where they're from, and I wonder what you are doing, what your families are like, what your goals are, what your problems are, what makes you happy. The geography alone is fascinating. A man from Moose, Wyoming, a well-known film director from Hollywood, the president of a chemical company in Pennsylvania, a priest working in a leper colony in West Africa (belive it or not), a woman from New York's Park Ave., a Congressman from California, a retired writer, a fund manager from Florida, and on and on.

Often the subscriptions are accompanied by letters. And the letters can be fascinating. I read each letter carefully. And I often scribble responses on the margins and send the letters back. I don't like to respond this way, but I have to conserve energy and time. This is a strange business, and I've spent most of my life at it. I've never really considered it work, and I still don't. I have no plans to retire. None at all.



A NEW COMPUTER: We've just finished installing a new computer system in Dow Theory Letter's offices. You can see the results in the new labels being used on your mailings. Note that your subscription end date is printed on each mailing label, plus your client number. If you need to change your address, please use that client number to allow us to easily find your records in the new system. Or just mail the label to us, with the changes.

QUESTIONS and ANSWERS: Question: Russell, you've been publishing your Primary Trend Index (PTI) ever since 1971. As far as I can see, it's been extremely accurate. Is there any way I can get a daily reading on the PTI? Also, how can this be a primary bear market with the PTI still in a bull trend?

Answer: First, those who have followed the PTI since I first began publishing charts and statistics on this Index know that the PTI reverses its trend very rarely. In other words, the PTI is not given to whip-saws. For this reason, I've never felt it necessary to provide daily readings on the PTI, nor do I feel a PTI "hot line" is necessary.

Over the years I've formulated a few rules regarding the PTI. One is, "Never be on the wrong side of the PTI." Another is, "The market will not take off on the upside unless the PTI is rising on a trend basis, and the market will not cave in unless the PTI is declining on a trend basis." A third is: "The PTI is easy to read, all you have to know is up from down. If the PTI is above its 89-day moving average, it's bullish. If below, it's bearish."

What does "not being on the wrong side of the PTI" mean applied to the current situation? For experienced traders (as I've said repeatedly) it means trading with the trend of the PTI or trading on the long side of this market. But since this is a confirmed bear market, for the average investor this means being out of stocks and largely in money instruments.

Now this is important, the current mode of the PTI indicates that one should definitely not be short on this market (and I hope this answers the many letters I have received from subscribers inquiring about putting out shorts). Shorts will only be warranted when the PTI is in a decisive downtrend.

Next, how can this be a bear market with the PTI in a rising trend? It is important to understand that the PTI is based strictly on market action. The PTI doesn't think, it doesn't interpret. Thus, it works very well on secondary trends and particularly well during periods (as now) of confusion.

But for the long-term investor, the most important consideration is values. At the 1987 highs we saw values so thin that we knew the bull market was near or at its end. Then when the Dow Theory bear signal was given we had proof that the tide had turned down. Once the tide of the market turns down, we know that a bear market is in progress and that in due time the bear market will produce great values.

The safest way to operate in a bear market is to stay out of it as far as equities are concerned. But we must remember that bear markets don't go straight down, any more than bull markets go straight up. And just as bull markets produce some frightening and costly downside corrections, bear markets produce some powerful and profitable corrective advances.

One of the best (maybe THE best) way to speculate on these counter-trend moves is with my PTI. I have written that those experienced traders who understand the risks might well play the market strictly by following the trend of the PTI. For the majority of my subscribers, however, I feel that being fully invested in a primary bull market and being in cash or money market funds or highest-grade bonds in a bear market is plenty good enough. This "let's keep it simple" procedure will work extremely well over the years.

Question: Even before the 1987 crash and the onset of the bear market you stated that the operative word for investors would be INCOME. Do you still feel this way?

Answer: Yes, I most definitely do. As this bear market progresses, ultimately into its second and then its third phase, we are going to see an increasing squeeze on incomes. We will experience this squeeze via (1) a recession and possibly a depression, (2) a loss of jobs, (3) higher taxes, (4) lower wages, although that may sound impossible today, (5) an unwillingness by banks and other financials to lend money, (6) last but not least, we will see a loss of income through bankruptices and vicious cost-cutting by business.

Once business turns down I believe we will also find that consumers are going to be very reluctant to take on more debt. This will have a snowballing negative effect on retail sales and on business in general. So far, the business expansion of the '80s has been fueled by huge amounts of consumer debt. Corporations, too, have assumed massive amounts of debt. There will be a rush to pare down debt once the recession starts. This action will only intensify the recession.

But over all, the only thing that will sustain our standard of living through this bear market will be income. Intuitively, people seem to realize this. That is why so much of the public's money is currently going into interest-bearing vehicles such as money-market funds, bonds, bond muni funds, etc.

Question: Russell, over the last few years we have heard warnings of recession and dire times to come. Isn't it possible that there will be no recession in our future -- at least say over the next three or four years?

Answer: Anything is possible. *Growth Fund Guide* (Box 6600, Rapid City, SD 57709) presents a most informative study of recesssions in their latest issue. They note that there have been 11 recessions since 1929 and "all but two started within a 14-month time span following a presidential election." They note also that the current economic expansion is 73 months old, whereas the average expansion in the 20th century lasted 37.7 months. Only two expansions (1938-45 and 1961-69) lasted longer than the current one "and both were, in part, war time expansions."

We are already at a record peace-time expansion. Interest rates are now pushing up, both here and abroad. Moreover, money instruments are now near the dangerous "inverted yield" stage (i.e., the stage where short-term rates move above long-term rates).

Thus, as I see it, the odds are increasingly against the optimists on business. Each month that goes by is another record for peace-time expansion. Personally, I never like to bet on new records for the market or the economy. The safe position at this time is to say that "the economy and the market are both living on borrowed time. Good luck to both of them, but I'll watch the show from the sidelines."

Question: Russell, you keep talking about a major and a drastic bear market ahead. Why are you thinking along these lines?

Answer: For one thing, a bear market serves to correct the excesses of the preceding bull market. The excesses built into the 1970s and '80s were mind-blowing. Furthermore, these excesses are still being built into the markets and the economy -- even though there is a bear market in force. This tells me that the corrective force of this bear market must be very powerful. Furthermore, the fact that our government has fought the bear and manipulated the primary trend does not auger well for the future. Nothing has been allowed to correct naturally.

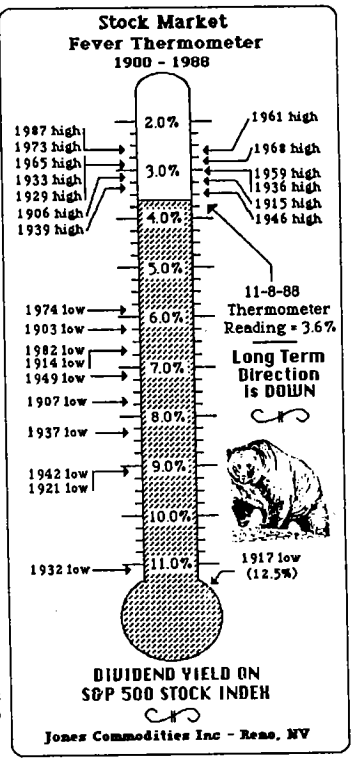
The government has put itself up as the lender of last resort for literally everything. All the natural forces of correction have been eliminated or held in abeyance. This is ominous. It's comparable to fighting nature. When the steam in the boiler builds up and is not allowed to escape, the result is an explosion. I'm afraid that's what we have done to the American economy.

On the nearer term, Salomon Bros. *Comments on Credit* (Dec. 2) states: "Profit growth is headed for a dramatic slowdown, as an ongoing squeeze on profit margins combines with dwindling economic growth to trim the hike in corporate income."

Question: You keep talking about values. Is there any way to quantify values? Or do we just say that "stocks look OK here" and at some point we go in and buy them.

My friends at *Jones Commodities Newsletter* (1535 Lillian Way, Reno, NV 89509) have taken Edson Gould's "Senti-meter"

(which has often appeared in Dow Theory Letters), and they have published a much more detailed version of it. I include that version below.



Here we see all the major bull market highs (in terms of yields) and the major bear market lows (in terms of yields). The top of the shaded area shows where we are now in terms of yields.

In identifying the top of a bull market or the bottom of a bear market, the most important consideration is values. Values are best determined by the return to the investor or the yield. Note at the bull market tops the dividend yield on the S&P 500 was always less than 4%. Conversely, at bear market bottoms the S&P yield was always around 6% or more. I can't over-emphasize the value of this study.

Right now the S&P is yielding 3.8%. This is still in the area of tops. We have a long way to go before the S&P provides yields comparable to a bear market bottom.

NOTES and QUOTES: The top-rated colleges are very picky about who they take and they are, for the most part, very expensive. There are exceptions to the price. Annapolis, West Point, and the Air Force (all free if you can get in), accept a very low 11% of applicants. But a number of highly-rated colleges are both expensive and picky. Harvard (cost $18,210) accepts only 15% of applicants, Stanford ($17,821) accepts 15%, Princeton ($17,967) accepts 17%, Yale ($18,060) accepts 17%.

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I honestly don't know what's happening to this country. Maybe it's the result of 40 years of the welfare state. In a Carnegie Foundation study of 22,000 teachers, 90% said lack of parental support is a problem for their kids, 89% said there are abused or neglected children in their schools, 69% said that poor health among students is a problem.

Meanwhile, over the last four years the population of US jails is up 32% while arrests are now so numerous that the courts can't handle the load and the American criminal justice system is breaking down. From 1983 to 1987 arrests of men rose 8%, women 17%. The number of men in jails rose 31% to 295,873 while the number of women rose 53% to 23,920 (this does not include people in penitentiaries, only those in jail being held before or after arraignment).

Speaking of crime, shoplifting among America's retailers is up 29% over the last five years (1987's total loss was $1.8 billion). This year's top rip-off favorite -- "designer lingerie."

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A presidential committee says Congress (plus top civil servants and federal judges) are entitled to a fat 50% boost in salaries. I've got a better idea. Let's give Congress a $1000 raise for each $2 billion of decline in the federal budget. If the deficit drops $100 billion, they'll each get a $50,000 raise. This would be the biggest bargain in salary boosts in US history. . . . Backers of the pay raise came up with this idea to ensure its passage without embarrassing our Congressional representatives. A pay-raise resolution will be included in the presidential budget. If Congress doesn't pass a joint resolution rejecting the pay raise, then within 30 days it becomes law.

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I'm interviewed every Friday (10:05 AM) on LA's station KWHY-TV. Last week the station sent me the scariest thing I've ever seen. It's called "$Debtman," and its a stand-up computer that gives you the time and date. But when you press a button it shows you the federal debt, actually compounding at the rate of multi-thousands of dollars a second. It's a shocker. I show it to people and they gasp, they scream. If you want one (they cost $39) call 1-800-DEBTMAN.

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Japan's big three, Toyota, Nissan and Honda, are now moving aggressively into the luxury car market. Honda already has its Acura, and coming up we'll have Toyota's new Lexus and Nissan's new Infiniti. The ad budget for the new luxuries will be a fat $175 million. The new cars will be in the $35,000 to $40,000 class, but the word is "confusion," nobody knows who's making what any more. One fact: Porsche and Jaguar sales are dropping off sharply. Russell comment: Porsche should never have made their "cheap" 944 model. Porsche owners want to be exclusive and a cheap model rubs them the wrong way. As for Jaguar, they shouldn't have redesigned the gorgeous XJ6. The new XJ6s have lost the Jag look.

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Forget the Broadway shows, the biggest shows in Gotham are the criminal trials, which have been packing 'em in and turning 'em away by the hundreds. Tops: The shocking Joel ("the Monster") Steinberg trial for child torture and manslaughter and the Bess ("Miss America") Myerson trial involving greed, vanity, and corruption. But the biggest are yet to come -- the Harry and Leona Helmsley affair (Helmsley Hotels, greed, and tax evasion) and the Ferdinand and Imelda show (stealing on a mega-monumental scale).

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Who is issuing the world's bonds? Here's the rundown: The US has issued over half (51.5%) of the world's $7 trillion in fixed-income securities, Japan accounts for 20.1%, the UK 9.1%, Germany 6.8%, France 3.4%, Canada 3.1%, Netherlands 2.1% and Switzerland 1.6%.

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The January issue of *National Geographic* contains an incredibly good lead-off article on coca and cocaine with many mind-blowing facts. For instance, in certain areas of Columbia, coke corruption is so profitable that police pay to be stationed there.

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Rough Business: This year, according to the Direct Marketing Assoc., an estimated 10,000 catalogue companies will mail about 12 billion catalogues or about 50 for every man, woman, and child in America. Average cost for the sender -- about 45 cents per catalogue. The glut has caused Pier One, Montgomery Ward, and Esprit de Corps to get out of the catalogue business completely.

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Here it is folks, *W* magazine has just crowned New York's "big five," the ultra-glamorous, mega-buck, power-queens. And who are they (as if you didn't know)? Anne Bass, Mercedes Kellogg, Ivana Trump, Georgette Mosbacher, Carolyne Roehm (Mrs. Henry Kravis). States *W* breathlessly, "They're New York's Social Cyclones. They've taken the city that loves to be taken by storm, and they did it in record time. As the traditional social queens huddled in their doorways, these five tornadoes -- took over. They run the charities, make the big marriages (and divorces), have the inside tract to Bush-town and know their way around the board room. Tradition doesn't interest them but power does. They're New Women for a New Time and New York deserves them." Russell note: They're all young (30s and 40s), good-looking, and have very rich husbands, very.

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How can owners afford those expensive baseball players? Well, take our San Diego Padres. They'll get more than $10 million for the season from the new CBS contract, $8 million or more from local radio, another $3 million from TV and cable rights. That's better than $20 million before the first seat at the stadium is sold.

* *

The auction of world-class diamonds has put the sparkly rocks in a class with top-art for prices. What's happened is that dealers (who used to negotiate sales in secret) are now using the auctions to get top prices for the big stones. Furthermore, DeBeers is releasing many over-ten carat stones that they have stockpiled. The auction publicity has helped to propel super-diamonds to stratospheric prices. In October Sotheby's took in $35 million in a gem sale and

Christie's took in $27 million. A few years ago $8 million for such sales would have been considered sensational.

* *

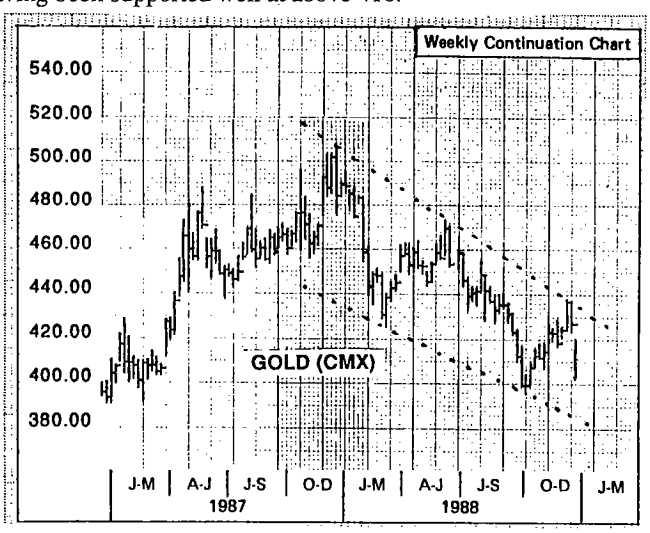
Housing prices across the US are subject to extraordinary variations. While home prices in the Southwest and the Northeast and in Denver are soft, prices in Southern California continue to set records. For instance, in the hot San Diego market, the average price for a home in '88 so far is $172,585 as against an average price in '87 of $133,836. That's an unbelievable jump of 29%.

PRECIOUS METALS: It's a rarity, but it happens. I'm talking about panic in the market. With no advance publicity or warning, Ford announced that they had come up with an experimental emission-control device that won't use platinum. Since 30% of platinum production goes into emission-control devices, the platinum market was stunned -- and it panicked.

Within days platinum dropped from above 600 to a low of 517. The panic will be subject to the normal post-crash action, which means that platinum should automatically recover approximately half of its panic losses -- then perhaps decline to test the area of the lows. From there, the fundamentals of the platinum situation will take over, and those fundamentals will give us a true picture of what platinum is worth and where it's going.

What is the reality? No one can be sure at this point. There is a good deal of skepticism about the Ford device, but only time will tell whether Ford's got a winner or a dog. In the meantime, I don't have many platinum Noble coins, but I'm holding what I have.

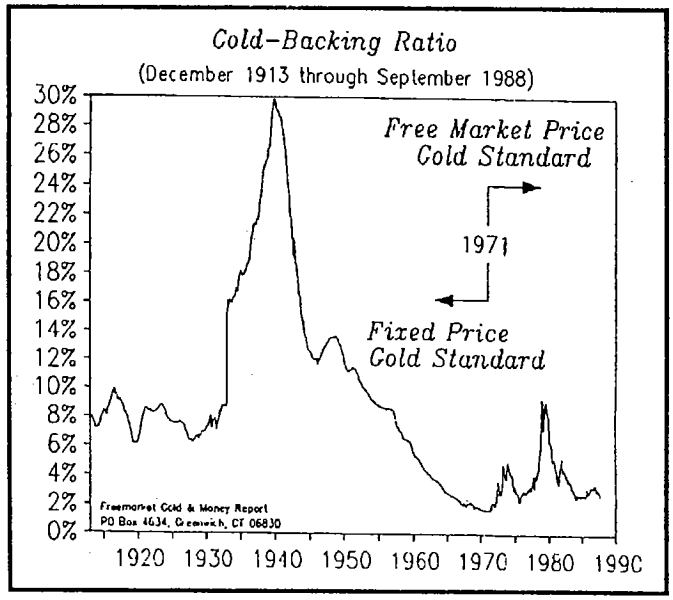
As for gold, it sunk (as did silver) in sympathy with PL. The weekly chart (courtesy of *Dunn & Hargitt*) shows that gold is still fluctuating within its declining "wedge" pattern, but as this is written the yellow metal is pushing back toward the 420 area, having been supported well at above 410.



I might add that classically a declining wedge pattern implies a gradual drying up of selling pressure. If so, in due time I would expect gold to break out above the upper limits of the wedge. At this point, it would take a gold rally above 440 to turn the metal clearly bullish.

I continue to feel that gold in the "below 420" area is good value, particularly in the face of the trillions of dollars worth of new "monetary paper" being created by over 100 nations across the face of the globe.

Jim Turk (*Freemarket Gold & Money Report,* PO Box 4634, Greenwich, CT 06836) presents a most interesting formula for judging the position of gold vs. dollars. He uses three items to compute his "Gold-Backed Ratio," they are (1) the amount of US gold reserves, (2) the free market price of gold, and (3) the amount of M-3, a very broad measure of the money supply.



He computes his ratio by multiplying US gold reserves (now 262 million ounces) by its free market price and then dividing by the amount of M-3. Currently, the ratio is 2.7%. This tells us that for every $100 dollars circulating as currency, there is only $2.70 worth of gold being held in reserve by the US.

Turk's chart shows the ratio (monthly) going back to 1913. The ratio indicates whether gold or dollars are a better value in relationship to each other. The year 1971 is the year when gold was freed to fluctuate at market price rather than a fixed price (that was the year Nixon closed the gold window).

Since the ratio measures the relative purchasing power of gold or dollars, when the ratio is rising, confidence in the dollar is declining. Conversely, when the ratio is falling, confidence is rising. Note of the chart that the ratio has been falling since 1980 (indicating confidence). However, and this is important, when the ratio is below 3% gold is considered excellent value regardless of the direction of the ratio. Since the ratio is now very low at 2.7%, accumulation of gold on a long-term basis is recommended.

LATE NOTES: Ed Hyman of C.J. Lawrence notes in his latest mailing that the spread between the discount rate and the Fed funds is now the widest since 1974, and he's betting that the discount rate will be raised before January 20 (Bush will be in by then). Russell comment: If the discount rate is raised, everybody will be expecting 1/2%. How about a shocker of a full 1%. Did you notice, over the past few weeks rates were raised in Germany, Belgium, France, Holland, Australia, Canada and the UK?

I think ("feel") that inflation is heating up, and you can see it with the CRB Commodities Futures Index pushing over 250 last week. I suspect the Fed is feeling it too. Meanwhile, the market "should" rally after Christmas. If it doesn't, have a care.

Enough. They've been fighting all year, and I think it's time they cooled it and did a bull and bear fox trot together. So dance, you devils, dance.

To all my subscribers, pen pals, market letter buddies, associates, and to market students across the face of the globe -- Dick Russell says, "All the Best for the New Year and for 1989 and Beyond."

Next Mailing: Jan. 11, 1989.